

Message Text

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PAGE 01 JAKART 07038 071404Z

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ACTION EA-13

INFO OCT-01 ISO-00 SS-14 EB-03 INR-10 SAM-01 SP-01 L-02

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FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 2705

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S E C R E T JAKARTA 7038

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E.O. 11652: GDS

TAGS: ENRG, ID

SUBJ: ENERGY: INDONESIAN LNG

REF: A) JAKARTA 6997 B) JAKARTA 6176

1. SUMMARY. DURING LAST FEW DAYS EMBOFF HAS TALKED WITH TIRTO UTOMO (PERTAMINA), WIJARSO (MIGAS) GEN. IBNU SUTOWO AND EUGENE O'ROURKE (PACIFIC LIGHTING - PL) ABOUT STATUS SALE INECENSAN LNG TO PL. PERTAMINA/PL DISCUSSIONS APPEAR TO BE REACHING CONCLUSION WITH PL LIKELY TO REFUSE TO ACCEPT PERTAMINA'S PROPOSED PRICE AND PERTAMINA UNDER PRESSURE TO MAKE RECOMMENDATION TO GOI. BASED ON INFORMATION NOW AVAILABLE, IT APPEARS FINAL DECISION ON PL CONTRACT MAY BE MADE MIDDLE NEXT WEEK. END SUMMARY

2. ON JUNE 3, EMBOFF CALLED ON WIJARSO TO DISCUSS NUMEROUS MATTERS INCLUDING LNG. WIJARSO WAS UNUSUALLY NEGATIVE ABOUT PROSPECTS FOR SUCCESSFUL OUTCOME SALE TO PL, CHARACTERIZING RECENT PL PROPOSAL TO INITIATE JOINT PERTAMINA/PL STUDY OF CALIFORNIA MARKET (REFTEL A) AS "NOTHING NEW" AND "MERELY A DELAYING TACTIC". WIJARSO NOTED THAT SINCE PL HAD OFFERED NO MORE THAN \$1.16 PER MILLION BTU, (REFTEL B) CHANCES WERE

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SECRET

PAGE 02 JAKART 07038 071404Z

NIL OF REACHING AGREEMENT. (PETROLEUM INTELLIGENCE

WEEKLY OF 5/30/74,HAS FAIRLY ACCURATE AND COMPLETE REPORT OF PRESENT STATUS OF NEGOTIATIONS.)

3. DURING EVENING JUNE 3, EMBOFF ASKED GENERAL IBNU ABOUT POSSIBILITY OF PL AND PERTAMINA REACHING AGREEMENT. IBNU SAID, "IT IS ONLY A MATTER OF NUMBERS. PL KNOWS WHAT OUR POSITION IS." IN RESPONSE TO EMBOFF QUESTION CONCERNING HOW LONG PL HAD TO RESPOND TO PERTAMINA, IBNU PARTIALLY EVADED QUESTION AND REPLIED, "WE TOLD THEM THAT IF THEY ACCEPT OUR PRICE WE ARE WILLING TO WAIT UNTIL FPC MAKES DECISION."

4. TIRTO UTOMO CALLED JUNE 4 TO ASK EMBOFF'S OPINION OF PL JOINT STUDY PROPOSAL. AFTER EMBOFF POINTED OUT MERITS PROPOSED STUDY, TIRTO SAID, "IF PL CAN'T OFFER MORE THAN \$1.16 (PER MILLION BTU'S) IT IS IMPOSSIBLE, JUST IMPOSSIBLE. PERTAMINA CANNOT ACCEPT MORE THAN A 30 CENT DIFFERENCE IN PRICE VIS-A-VIS JAPANESE. THE STUDY IS JUST A WASTE OF TIME." AFTER ASKING IF EMBOFF SAW N.Y. HERALD TRIBUNE REPORT THAT FEO DEPUTY ADMINISTRATOR SAWHILL RECENTLY TOLD U.S. ENERGY BUYERS NOT TO ENTER INTO LONG TERM CONTRACTS, TIRTO ASKED EMBOFF TO PROVIDE REFERENCE MATERIAL ON PROJECT INDEPENDENCE FOR PERTAMINA STUDY. TIRTO CLOSED CONVERSATION BY SAYING HE WOULD SEE GEN. IBNU LATER THAT DAY TO DISCUSS LNG.

5. TIRTO CALLED EMBOFF AGAIN ON JUNE 6 SAYING HE HAD SEEN GEN. IBNU AND HAD SENT TELEX TO PL. AFTER READING TEXT TELEX TO EMBOFF, TIRTO ASKED EMBOFF TO CALL PL (O'ROURKE OR TODD) AND INFORM THEM:
1) IF PL WILLING TO ACCEPT PERTAMINA'S "PRICE IDEA" DISCUSSED PREVIOUSLY IN LOS ANGELES, TIRTO WOULD FLY TO UNITED STATES IMMEDIATELY TO WORK OUT DETAILS AND 2) TIRTO WOULD APPRECIATE PL REPLY BY MONDAY (6/10) OR TUES (6/11) AT LATEST SINCE NEXT PERTAMINA CONFERENCE ON LNG SCHEDULED FOR WEDNESDAY JUNE 12. TIRTO WOULD NOT ELABORATE ON "PRICE IDEA" BUT DID INDICATE PERTAMINA WAS PREPARED ACCEPT A LITTLE MORE (A FEW CENTS) THAN
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SECRET

PAGE 03 JAKARTA 07038 071404Z

30 CENT DIFFERENCE. TIRTO SAID, "GENERAL FEELING IS THAT THIS HAS DRAGGED OUT TOO LONG ALREADY." HE ADDED, "WE MUST MAKE A REPORT AND RECOMMENDATION TO GOI SOON."

6. DURING EVENING JUNE 6, EMBOFF REPORTED WIJARSO, IBNU AND TIRTO UTOMO CONVERSATIONS TO O'ROURKE. IN RESPONSE O'ROURKE SAID "IT SOUNDS LIKE IT IS

TIME TO FISH OR CUT BAIT." O'ROURKE ASKED EMBOFF
TO INFORM TIRTO THAT HE WOULD CONFERE PROMPTLY WITH TODD AND
PROCTOR BY PHONE AND WOULD SEND TELEX TO
TIRTO JUNE 10 OR 11. SPEAKING PERSONALLY, O'ROURKE
WAS NOT OPTIMISTIC PL READY TO ACCEPT PERTAMINA
"PRICE IDEA" AND, FURTHERMORE, WOULD NOT TAKE
INITIATIVE TO CANCEL CONTRACT. RATHER, HE SAID,
"PL WILL PROBABLY RESTATE PREVIOUS POSITION AND
LEAVE IT TO INDONESIANS TO CANCEL."

7. ON MAY 30, TOKYO OFFICE OF ANTARA (GOI NEWS
AGENCY) REPORTED GEN. IBNU AND PRESIDENT JAPAN-
INDON LNG CO. (JILC) SIGNED \$892 MILLION 16 YEAR LOAN TO
FINANCE LNG PROJECTS. (THIS IN ADDITION TO \$197
MILLION LOAN REPORTED JAKARTA 3532.) ABOUT
SAME TIME RUMORS CIRCULATED IN JAKARTA THAT PERTAMINA
HAD AGREED TO SELL JAPANESE ADDITIONAL TWO MILLION
TONS LNG PER YEAR.

8. COMMENT: INFORMATION NOW AVAILABLE INDICATES
PERTAMINA AND GOI MAY BE ON VERGE DECIDING TO NULLIFY
PL CONTRACT UNLESS PL WILLING TO ACCEPT PRICE AT
AROUND \$1.50 PER MILLION BTU FOB. WHILE NEITHER PARTY
ANXIOUS TO BEAR ONUS OF CANCELLING CONTRACT, IT APPEARS
PERTAMINA, EITHER BECAUSE OF RISING PROJECT COSTS
OR PRESSURE TO DECIDE ON OTHER UTILIZATION OF GAS,
BELIEVES IT HAS GIVEN PL EVERY OPPORTUNITY TO REACH
DECISION AND IS PREPARED TO RECOMMEND THAT GOI NOT
ACCEPT PL PROPOSAL.
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